

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7915

BILL NUMBER: HB 1788

DATE PREPARED: Feb 17, 1999

BILL AMENDED: Feb 16, 1999

SUBJECT: Unemployment insurance revisions.

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FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill has the following provisions:

(A) Changes the base period for computation of unemployment benefits to the last four completed calendar quarters. (Current law provides that the base period for computation of unemployment benefits is the first four of the last five calendar quarters.)

(B) Increases the earnings base used to compute unemployment compensation to a maximum of \$10,000 in a calendar quarter. (Current law provides that the earnings base used to compute unemployment compensation may not exceed \$5,800.)

(C) Maximum total amount of unemployment compensation benefits payable to an individual during a benefit period may not exceed 26 times the individual's weekly benefit, or 32% of the individual's wage credits with respect to the individual's base period, whichever is less. (Current law provides that the maximum total amount of unemployment compensation benefits payable to an individual during a benefit period may not exceed 26 times the individual's weekly benefit, or 28% of the individual's wage credits with respect to the individual's base period, whichever is less.)

(D) Decreases the minimum wage credit necessary to qualify for unemployment compensation to \$2,000 in the base period, and requires the total wage credits in the base period to equal at least 1.25 times the wages paid in the highest quarter. (Current law requires \$2,750 in the base period with \$1,650 in the last two quarters of the base period, and requires the total wage credits in the base period to equal or exceed 1.25 times the wages in the highest quarter.)

(E) Eliminates the: (1) disqualification for waiting period rights; and (2) 25% maximum benefit reduction when an employee has separated from employment for disqualifying conditions.

Effective Date: July 1, 1999.

Explanation of State Expenditures: (Revised) All of the provisions of this bill will have an impact to the Unemployment Benefit Trust Fund. The balance of the Unemployment Benefit Trust Fund as of December 7, 1998 was \$1.4 billion.

(A) This provision changes the base period for computation of unemployment benefits will be calculated on four completed calendar quarters rather than on the current computation of the first four of the last five calendar quarters. It is anticipated that the change in the computation base could increase the amount of unemployment benefits available to recipients from the Unemployment Benefit Trust Fund. The fiscal impact of this provision is indeterminable but the impact is expected to negligible.

Currently, unemployment benefits are calculated on the first four of the last five calendar quarter. The change in the base period to the last four calendar quarters could delay the computation of benefits and payments to an individual if an employer has not yet submitted quarterly wage reports. For example, an employer is required to submit wage reports for the last quarter of 1998 no later than February 1, 1999. If an individual submits a claim in January 1999 for unemployment benefits, the Department of Workforce Development may have to contact an employer for the wages paid to the individual during the last quarter of 1998. The Department of Workforce Development would have to contact an employer to request the amount of wages paid to an individual who has submitted a claim for unemployment benefits. The computation of benefits and the payment of benefits would be delayed until the Department of Workforce Development receives the requested information from the employer.

(B) The current earnings base used for the computation of weekly benefits is \$5,800 per quarter for a maximum weekly benefit of \$244. Increasing the earnings base to \$10,000 per quarter increases the maximum weekly benefit to \$420, an increase of \$176 (72.13%). In 1998, the average weekly benefit paid was \$218.57, approximately \$25 below the maximum benefit allowed. Using the average weekly unemployment benefits paid in 1998, the following table illustrates the potential fiscal impact of changing the earnings base.

Avg. Computed Weekly Benefit Amount at \$5,800	\$218.57 per week
Avg. Computed Weekly Benefit Amount at \$10,000	\$281.25 per week
Dollar increase	\$62.68 per week
Per cent increase	28.68%
Amount of Unemployment Insurance compensated in 1998	\$262,897,270
1998 amount increased by 28.68%	\$75,386,119
Total amount of Unemployment Insurance compensation under HB 1791 (28.68% increase of 1998 compensation)	\$338,283,389

This provision will impact the amount of benefits available to an individual from the Unemployment Benefit Trust Fund. Based on the amount paid in unemployment benefits in 1998, this bill would increase expenditures from the Unemployment Benefit Trust Fund by approximately \$75 million.

Note: The Unemployment Benefit Trust Fund is funded by quarterly contributions made by employers. The amount of each employer's contribution is based on each employer's individual unemployment account history and the past year's statewide unemployment rate. Other factors, including benefits aid to former employees, voluntary payments made, and the partial selling and purchasing of other businesses by the employer also impact each employer's rate. The potential impact of the provisions of this bill will change as the state's economy changes. For example, if the state's unemployment rate increases, the amount of unemployment benefits paid from the Fund will increase, and an employer's contribution rate to the Fund will change.

(C) Currently the weekly benefit amount is the lowest of the following amount: (1) 28% of total earnings in four quarters; or (2) 26 times the weekly benefit based on 5% of the first \$2,000 of the high quarter wages and 4% of the remaining wages. This provision changes the maximum total amount of benefits payable to an eligible individual during any benefit period from 28% to 32%, but keeps the benefit period to not more than 26 weeks. In 1998, approximately \$263 million was paid in unemployment benefits. This provision will have a minimal impact the amount of benefits available to an individual from the Unemployment Benefit Trust Fund.

(D) This provision decreases the minimum computation base for unemployment compensation from \$2,750 to \$2,000. The total wage credits in the base period are to equal at least 1.25 times the highest quarter. This would mean that an individual could make no more than \$1,600 in the base period ($\$1,600 \times 1.25 = \$2,000$). Under this provision and the provisions of (C), an individual would receive a total benefit of \$640 (32% of \$2,000).

This bill will increase the number of individuals who are eligible to receive unemployment benefits. In CY 1998 there were 17,146 individuals who were determined to be monetarily ineligible for unemployment benefits. Assuming that all 17,146 of the individuals would be eligible for unemployment benefits under this provision, an estimated \$10 million ($17,146 \times \640) in additional unemployment benefits would be paid from the Unemployment Benefit Trust Fund.

(E) This provision eliminates the disqualification for waiting period rights and the 25% maximum benefit reduction when an employee has separated from employment for disqualifying conditions. This provision will increase the amount of benefits an individual will receive but the provision will have a minimal impact on the amount of benefits paid from the Unemployment Benefit Trust Fund.

The maximum impact to the Unemployment Benefit Trust Fund from the provisions of this bill is an estimated \$85 million in additional unemployment benefit compensation.

Explanation of State Revenues:

Explanation of Local Expenditures: See "Explanation of State Expenditures."

Explanation of Local Revenues:

State Agencies Affected: Department of Workforce Development.

Local Agencies Affected: All.

Information Sources: Charles Mazza, Unemployment Insurance, Department of Workforce Development,

(317) 232-7460. *Unemployment Insurance Employer's Desk Guide*, Department of Workforce Development, p.p. 13, 27.